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Via E-mail

Gloria Blue
Executive Secretary
TPSC, Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Re: Steel, Inv. No. TA-201-073: Response to Comments on Presidential Action (Remedy) Under Section 203(a) of the Trade Act of 1974 – Free-machining hot-rolled bar

Dear Ms. Blue:

Corus Group plc. (Corus) hereby submits its Response to Comments on Presidential Action (Remedy) Under Section 203(a) of the Trade Act of 1974 with respect to free-machining hot-rolled bar. As Corus has already articulated in prior submissions, the customers for this high-value product, the cold-finished bar producers, are largely dependent upon imports to meet their requirements. Consequently, it is important that the Trade Policy Staff Committee make a recommendation to the President that takes adequate account of the need of the cold-finished bar industry for this product.

As was noted during the TPSC meeting on free-machining steel, no relief provided during this 201 investigation is going to encourage more U.S. production of free-machining steel. Free-machining steel is produced by putting additives, usually lead, into hot-rolled bars. Due to the high costs of the environmental restraints associated with the handling of chemicals such as lead, it is highly unlikely that any U.S. producers will enter into this market, regardless of the presence of imports. In fact, there is only one remaining U.S. producer that melts the lead necessary to produce free-machining bar, and it is probable tat this producer will close down its lead melting facility in the coming year as part of its bankruptcy reorganization plan.

It is perhaps for this reason that, based on our review of the submissions in this stage of the investigation, the domestic industry appears not to object to any special treatment for imports of hot-rolled free-machining bar. They seemingly also recognize that, with only three U.S. producers of this product – two of whom are not viable sources for the input needs of the independent cold-finishers because they compete against the independents in the cold-finished bar market – imports have an important role to play in this market. Moreover, as noted in the table attached to this submission,[1] the overwhelming majority of imports of free-machining steel enter the United States from the United Kingdom, and Corus is responsible for the bulk of those imports. The U.S. producers seem to realize, therefore, that Corus, as a responsible player in the world market, would not import a product in an reckless manner so as to cause injury to the U.S. industry. This observation seems to gain further credence when examined in light of the fact that the U.S. industry let the antidumping and countervailing duty orders on lead and bismuth bar sunset in 2000 without challenge.[2]

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[1] This table was not presented to the International Trade Commission. The only other material submitted to the TPSC but not put before the ITC is the Fact Sheet: Free-Machining Steels Import Volumes – 2000.

[2] The market's response to these prior orders provides useful insights for the current investigation. The AD/CVD investigation fell at a time when the market was substantially stronger than it is today. Nonetheless, Corus was not able to pass on any significantly higher prices to its U.S. customers of free-machining steel. Instead, Corus was compelled to take drastic measures in its home market to greatly reduce the margins. If the market will not bear price increases when the economy is strong, it certainly will not tolerate such increases in today's weaker climate. It is more likely that the moves to off-shore production by the downstream consumers of free-machining steel that began as a result of the AD/CVD case will be exacerbated by any import restrictions that would come from this investigation.

Finally, it is important for the TPSC to be mindful of the disastrous consequences that import restrictions would have on the consumers of imported free-machining hot-rolled bar – the independent cold-finished bar producers. The claim of the Minimill Coalition (Long Products) that import restrictions will not cause prices to rise because the U.S. industry will use its excess capacity to replace imports simply is not true with respect to free-machining steel. Minimill Brief at p. 22. As already noted, there are only three producers of free-machining steel in the United States, and two of them cannot be considered a stable source of supply by the independent cold-finished bar producers because these U.S. producers participate in the cold-finished bar market on a large scale. Moreover, there will be no new entrants producing free-machining steel in the United States. Consequently, the theory espoused by the Minimill Coalition for arguing that prices in the U.S. market will not increase dramatically, however true with respect to commodity-type merchant bar, does not ring true with respect to free-machining steel.

The consumers of imported free-machining hot-rolled bar, the independent cold-finished bar producers, will be greatly injured by the price increases that would result from import restrictions. The Minimill Coalition focuses on the wrong consumer in arguing that price increases will have minimal effect. Minimill Brief at pp. 22-23. It is not the ultimate end-user of the finished goods that will be most squeezed by increased import prices. Prices for finished goods will not rise because OEMs simply will not tolerate any price increases for their input products; instead, they will purchase their input needs from other, cheaper sources. It is precisely for this reason, however, that the immediate consumer of imported free-machining steel, the independent cold-finished bar producers, will be most injured by imports restrictions.

They will not be able to pass on to their customers, the OEMs, the increasing costs that will result. The independent cold-finishers will be forced to bear the burden of increased prices – a burden that this industry, which the ITC already found to be seriously injured, cannot afford to bear – or risk losing their customers for the products that they make. Consequently, the TPSC must ensure that these independent cold-finished bar producers have continued access to an adequate supply of reasonably priced imports to meet their needs.

Respectfully submitted,

Richard O. Cunningham/TPK

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ATTACHMENT

U.S. Imports For Consumption in 2000:
Free-machining Hot-Rolled Bar*

Country	In 1,000 Short tons
United Kingdom	142.89
Germany	47.21
Argentina	35.24
Spain	23.69
Canada	17.08
Japan	5.26
Italy	2.68
France	1.64
Mexico	0.15
Denmark	0.02
Total	**275.86**

***HTS – 72143000: Free-cutting steel, bars and rods, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling; and HTS – 72132000: Free-cutting steel, bars and rods, hot-rolled, in irregularly wound coils**

Sources: United States International Trade Commission Dataweb